

**First Session – Forty-Third Legislature**  
**of the**  
**Legislative Assembly of Manitoba**  
**Standing Committee**  
**on**  
**Public Accounts**

*Chairperson*  
*Mr. Josh Guenter*  
*Constituency of Borderland*

**Vol. LXXVIII No. 5 - 1 p.m., Thursday, June 20, 2024**

ISSN 0713-9462

**MANITOBA LEGISLATIVE ASSEMBLY**  
**Forty-Third Legislature**

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**LEGISLATIVE ASSEMBLY OF MANITOBA  
THE STANDING COMMITTEE ON PUBLIC ACCOUNTS**

**Thursday, June 20, 2024**

**TIME – 1 p.m.**

**LOCATION – Winnipeg, Manitoba**

**CHAIRPERSON – Mr. Josh Guenter (Borderland)**

**VICE-CHAIRPERSON – MLA Jim Maloway (Elmwood)**

**ATTENDANCE – 11 QUORUM – 6**

*Members of the committee present:*

*Messrs. Blashko, Brar, MLA Chen, Mr. Guenter, MLA Kennedy, Mr. Khan, MLAs Lamoureux, Loiselle, Maloway, Sandhu, Mrs. Stone*

*Substitutions:*

*MLA Loiselle for MLA Dela Cruz  
Mr. Blashko for MLA Devgan*

**APPEARING:**

*Tyson Shtykalo, Auditor General*

**WITNESSES:**

*Silvester Komlodi, Deputy Minister of Finance  
Andrea Saj, Provincial Comptroller*

**MATTERS UNDER CONSIDERATION:**

*Annual Report and Public Accounts of the Province of Manitoba for the fiscal year ending March 31, 2023*

*Auditor General's Report – Public Accounts and Other Financial Statement Audits, dated December 2023*

\* \* \*

**The Chairperson:** Good afternoon. Will the Standing Committee on Public Accounts please come to order.

**Committee Substitutions**

**The Chairperson:** Before we get started with our business today, I would like to inform the committee that the following membership substitutions have been received for this meeting only: MLA Loiselle for MLA Dela Cruz and Mr. Blashko for MLA Devgan.

\* \* \*

**The Chairperson:** This meeting has been called to consider the following reports: the Annual Report and Public Accounts of the Province of Manitoba for the fiscal year ending March 31, 2023; and the Auditor General's Report—Public Accounts and Other Financial Statement Audits, dated December 2023.

Are there any suggestions from the committee as to how long we should sit this afternoon?

**MLA Jim Maloway (Elmwood):** Would suggest that we go 'til 3 o'clock and then reassess at that time.

**The Chairperson:** So there has been a suggestion from the floor to go to 3 o'clock and reassess.

Is that good—is that agreed? [*Agreed*]

Does the Auditor General wish to make an opening statement?

Mr. Shtykalo, you have the floor.

**Mr. Tyson Shtykalo (Auditor General):** First, I'd like to introduce the staff members I have with me today. I'm joined by Natalie Bessette-Asumadu, Deputy Auditor General; Shane Charron, the engagement leader for the audit of the Public Accounts; and Erika Thomas, an audit principal on a number of audit engagements in our office.

Mr. Chair, each year my office audits the Province of Manitoba's summary financial statements as part of the Public Accounts audit. We also audit the financial statements of a number of other government-controlled and related entities. The objective of these audits is to express an opinion on the financial statements in accordance with Canadian auditing standards.

Our 2022-23 financial statement audit work is summarized in our report, Public Accounts and Other Financial Statement Audits, which I released on December 2023. The report also contains my observations on several matters of concern.

Mr. Chair, in 2022-23, I issued a qualified opinion on the Province's summary financial statements. A qualified audit opinion signals to users where they need to be cautious when relying on financial statements. The opinion was qualified because the Province provided insufficient support for its asset retirement obligations as at March 31, 2023. The Province should

ensure that sufficient supporting information is obtained in the future to avoid a similar qualification.

During the 2023 audit of the summary financial statements, we continued to encounter many of the same issues as prior years, including significant control and accounting issues throughout the government departments. We are currently conducting a performance audit looking into the likely causes of these control and accounting deficiencies.

I strongly encourage the Province to address the concerns we brought forward in the December report, in previous reports and in management letters.

Finally, I'm concerned about the Province's lack of audit readiness during the 2023 audit of the summary financial statements, and not receiving all of the required information in a timely manner resulted in delays in the finalization of our audit. I'm encouraged that the Province has committed to improving its audit readiness, as noted in their response included in the report. Going forward, the Province needs to take action to improve the planning, timing and resources allocated to the preparation of the summary financial statements and supporting documents.

I'm encouraged—in conclusion, Mr. Chair, I would like to thank the Department of Finance, the Treasury Board Secretariat and all others involved in the preparation of financial information in government-controlled and -related entities. Their co-operation and assistance are greatly appreciated.

I'd also like to thank my staff for their professionalism and excellent work on our financial statement audits and in this report.

I look forward to this—the discussion today on this report.

**The Chairperson:** All right.

Thank you, Mr. Shtykalo, and it's good to have you here. And it's also good to see the deputy minister here, as well as the Treasury Board Secretariat.

Does the deputy minister wish to make an opening statement, and if you could, please introduce your staff here today. *[interjection]*

Mr. Komlodi.

**Mr. Silvester Komlodi (Deputy Minister of Finance):** Thank you, Mr. Chair.

Good afternoon.

I would like to thank the committee for the opportunity to provide some brief comments on the matters

under consideration today, including the Annual Report and Public Accounts of the Province of Manitoba for the fiscal year ending March 31, 2023, published on September 28, 2023, and the Auditor General's Report—Public Accounts and other financial audits, dated December 2023.

Sitting at the table with me are Andrea Saj, the Provincial Comptroller; Ann Ulusoy, secretary to Treasury Board; Pam Lysak, senior financial officer, Manitoba Finance; and Babatunde Busari, acting Public Accounts consolidation manager in the Office of the Provincial Comptroller. Andrea will also be able to respond to questions from committee members.

As noted in the Public Accounts, the Province's summary financial position, as at March 31, 2022, was an operating surplus of \$270 million—should be 2023. This was an improvement of just over \$1 billion compared to the previous year deficit of 500—\$750 million, and an improvement of \$818 million over the '22-23 projected budget deficit of \$548 million.

Total summary revenues compared to Budget 2022 forecast were \$1.947 billion higher than forecasted. Provincial own-source revenues were \$906 million higher than the prior year forecast, due to significant increases in personal and corporate income tax remittances. Other provincial taxation revenues also increased compared to the previous year.

Federal transfers were higher than budget, reflecting a \$207-million one-time Canada Health Transfer due to COVID-19-related funding to reduce the pandemic-induced backlog of surgeries and other medical procedures, along with other pandemic medical supplies. The net income of government business enterprises was \$574 million higher than budget, primarily at Manitoba Hydro because of above water—above-average water levels at generating stations and an increase in export spot market prices. Reduction in water-power rental rates and the debt guarantee fee paid to the Province also improved Manitoba Hydro's net income, which alone was \$518 million higher than budget.

Total summary expenses were \$1.129 billion greater than budget, or \$1.180 billion higher than the prior fiscal year. This was mostly due to cost increases of \$325 million for regional health authorities, \$264 million expense to deliver the Family Affordability Package and the Carbon Tax Relief Fund, a \$140-million investment in nine municipal water and waste-water projects.

\* (13:10)

Emergency expenditures were \$166 million over budget due to the 2022 spring flood and above-average wildfire suppression expenditures. There was also a \$151-million increase in expense, mainly due to an increase by school divisions for salaries, supplies and services.

Finally, the debt-servicing cost was \$994 million higher than budget, due to higher interest rates as a result of the Bank of Canada's increasing target interest rate from 0.25 per cent in March 2022 to 4.5 per cent by March 2023. Other revenue and expenditure details are provided in the Public Accounts.

These summary financial statements had one qualification for the exclusion of the change in control of the Workers Compensation Board not recognized in prior comparatives, which was no longer present for the March 31, 2023, date. The March 31–the 2023 summary financial statements were qualified for a scope limitation related to insufficient support for asset retirement obligations.

The Auditor General's report to the Legislature on the Public Accounts and other financial statement audits identified several performance issues, which are primarily caused by challenges faced by departments related to staffing, skills and capabilities and processes. The department welcomes the Auditor General's report and its findings, and the Office of the Provincial Comptroller is committed to continue addressing these through collaborative work with departments and by performing its own due diligence. We look forward to providing updates on this work today.

I would also like to acknowledge that the '22-23 Public Accounts were one of the most challenging summary financial statements to prepare since the Province began summary reporting in 2007-2008. This was primarily because of the implementation of two major accounting standards in '22-23, including the PS 3280 asset retirement obligations and the p-thirty-five fifty financial instruments and PS 2601 foreign currency translation standard. The introduction of major new standards are infrequent, and implementing two in the same year has possibly never happened before. We shall endeavour to answer all administrative-administration-related questions posed by the committee on the reports reflected on the agenda. We may need to take some questions under advisement and provide a written response later.

I would like to thank the staff at the Treasury Board Secretariat, who prepare the annual report, the Office of the Provincial Comptroller, who prepare the

summary financial statements, and all staff in the Department of Finance and across government for their work related to these documents.

Finally, I also thank the Auditor General, Mr. Tyson Shtykalo, and his team at the OAG, for the professional and collaborative relationship with Treasury Board Secretariat and the Department of Finance.

Thank you.

**The Chairperson:** Thank you, Mr. Komlodi.

Because the deputy minister has indicated that Ms. Saj will be answering questions, is there leave to allow other witnesses from the Department of Finance to speak on the record? *[Agreed]*

Before we proceed further, I'd like to inform all in attendance of the process that is undertaken with regard to outstanding questions. At the end of every meeting, the research officer reviews the Hansard for any outstanding questions that the witness commits to provide an answer to, and will draft a questions-pending-response document to send to the deputy minister. Upon receipt of the answers to those questions, the research officer then forwards the responses to every PAC member and to every other member recorded as attending that meeting.

The floor is now open for questions.

**MLA Maloway:** I would like to begin by asking the deputy minister a question about the SAP refresh. As the deputy minister knows, the SAP was chosen over whoever the competitors were back in 2001, or somewhere around there. Manitoba was the first jurisdiction in the world—government—to have SAP. It was a program from Germany involved in a pulp plant—pulp plants, mainly. But for some reason we made this big leap and we went in with SAP over Oracle and other competitors.

Now, I know in Nova Scotia, the plan to cut costs originally was to bundle the city of Halifax, the hospital and the government together to get a better deal. We did look at that here, but for some reason, the City went off and—on its own, and I don't know what happened with the hospitals and so on; then was a whole issue here of the implementation and the modules that we were involved in. And I don't know how many years it took to get all the modules installed and whether they even ever—were ever done.

So I'm really not sure just where this all went, but given all the mess at MPIC on that Project Nova—and I don't know whether that's SAP or whether it's not—maybe you can confirm that—but we just have to be

careful. I don't think this is a political issue, I just think that we want to take care of the taxpayers' money here and not get, like—can you imagine replicating what's happened at Autopac right through the whole, you know, redo of SAP?

And so if you could give us some, you know, some information about that—also something to do with the costs. Like, what is going to be the rollout implementation schedule for this? Is the plan to roll this through the whole government within, like, 5 years or 10 years or 15 years?

And what we found before was, no sooner did we get a few modules set up, but then Microsoft come up with a new version, right? So—and that's a whole implementation schedule on its own. So the costs are just astronomical, and I don't know how public the costs are, because I suggest a lot of this is hidden costs, you know, buried here and buried there.

So I'm—I've been out of the loop on this for quite a few years now, but I would like to know what the deputy minister has to say about this.

**Mr. Komlodi:** Thank you, Mr. Maloway, for the question.

So maybe I'll just start with a bit of context in terms of our current SAP system. It's been online since 1999, so it's a fairly, I'll say aging system at this point. A number of jurisdictions around the world that are currently on SAP are transitioning to essentially a cloud-based version. So the SAP has 4HANA module, as it's technically called.

That new version effectively has limited customization that we would be pursuing because it—there's more effective for the system to have a standard approach that we can replicate across whole of government.

There is a whole-of-government effort under way right now, led out of essentially the Finance Department, around implementing that. It will take a couple of years for that new approach to be put in place.

There's a change management aspect of this as well, as, you know, if we look at the number of individuals in government that are working in the financial space, there is several hundred of them. So as we're implementing an updated version of SAP, there'll be an important change of management piece that's tied into moving into essentially a cloud-based approach.

The OAG also audits all of the entries in SAP on an annual basis, so this system is very much, you

know, our central tool. So we are taking the care and due diligence in terms of the planning that's under way right now to move forward into a more updated system, and we look forward to, you know, implementing that over the next couple of years.

**MLA Maloway:** So my one follow-up question to this—we've spent all afternoon just on SAP alone. Was there any consideration at any point made to test the market to see whether Oracle or some, or pop—whatever they're called are—could be a different option?

\* (13:20)

Because, you know, this implementation, as you indicated, started in 1999, so if you do the math on that, some people were pretty young when that happened, right? And there have been lots of ups and downs over the years on this SAP question.

So have you done any market checking in all those years to see if there's a better option out there or a cheaper option?

**Mr. Komlodi:** So in terms of SAP usage, just to add a bit more context, the current on-premise or on-premises version of the SAP will no longer be supported by SAP in 2027. So there is an effort under way across governments all around the world and others who are using the current on-premise version to transform into the new cloud-based version.

As I mentioned, all governments are currently using this and we've been using this system since 1999. So for us, the transition to the cloud-based version, we're expecting to be fairly well-understood, given that we've been working with the SAP software for many years.

So from that perspective, SAP is the industry leader. It's been used by governments all around the world, including Canada, so we have full confidence that the cloud-based version will meet the needs of the province and obviously meet our oversight and comptrollership requirements and some of the new functionalities that are part of the SAP S/4HANA module.

**Mrs. Lauren Stone (Midland):** Thank you for being here today. In your opening comments, and I apologize; I was having a difficult time hearing, so I'm wondering if you could just make a couple clarifications.

You talked about some specific challengers or some challenges with doing the report. So just as a new deputy minister working in Public Accounts,

what would you change to improve the process to make it a little bit easier, less challenging?

**Mr. Komlodi:** Thank you very much for the question.

And so maybe I'll start with the vacancy aspect of this because that's definitely one of the challenges that we have in terms of, you know, fulfilling the full capacity demands that we have on the department.

So there's a number of activities under way right now. For example, we have an HR steering committee that's been set up together with the Public Service Commission to make sure that when we're going to market, and also when we're developing staff internally, that we're doing that with a solid strategy that essentially, you know, looks to maximize what the Province has to offer in terms of employment, in terms of the opportunities that exist within the Finance Department.

We are working, as well, with universities in terms of attracting individuals, for example, from the economics department, and working, as well, with our partners, for example, with CPA Manitoba. So there's a lot of conversations under way right now around making sure that the province, on the financial side, in particular, is seen as a great place to work.

We are also looking at the training aspect of things, and I'm actually going to ask Andrea Saj to maybe comment on that specific, to expand on some of the initiatives that are under way.

**Ms. Andrea Saj (Provincial Comptroller):** Okay, thank you very much.

Yes, so I think the most important aspect of addressing some of the challenges and vacancies and capacity issues that we're noticing and the OAG has noticed in departments is to work with those staff in the finance departments of each of the ministries on an ongoing, continuous basis throughout the fiscal year so that they are keeping on top of and working smoothly through the accounting that they're doing throughout the fiscal year to enable and enhance the year-end reporting.

**MLA Cindy Lamoureux (Tyndall Park):** My first question is in regards to the annual report on Public Accounts, specifically what's being found on page 10 and 11.

Does the department expect Hydro to continue its rebound from 2022, and what mitigation strategies, especially in the drier years, are in place to ensure sustainable revenue for Manitoba Hydro?

**Mr. Komlodi:** Thank you for the question.

So Manitoba Hydro's forecasts are informed by—their budget forecasts are informed by their hydrological forecast. So they have an expert team that will take a historical view as well as a forward-looking view of where they think water levels are going to be in any given year.

Now there's some unpredictability, of course, that's built in to that, so the estimates that we receive do have a sort of a range that's part of it. And we take their recommendations in terms of where that forecast, and ultimately the net income that results from it, are built into the budget.

In terms of mitigation that's tied into it, we do have a revenue contingency, so in that year's—in the '22-23 Public Accounts, that was \$200 million. So, effectively, that nets off our total summary revenues, and it's essentially a contingency that could account for in-year fluctuations with respect to Manitoba Hydro's water levels and then—and how that plays out.

The other component for Manitoba Hydro is, of course, the spot market, so while it has set contracts, it does engage in the spot market when it makes sense. So there's some variability in terms of that, as well, that plays into their year-end results.

We do monitor that on a regular basis, working with our contacts and colleagues at Manitoba Hydro. Obviously through the board reporting, as well, that happens on a regular basis. And then, of course, that's updated in a quarterly reporting. So we do follow that very closely.

And yes, that's all. Thank you.

**MLA Lamoureux:** Thank you for that response.

And just a bit of a follow-up question: Can you help us understand why there were nine water and waste-water projects unbudgeted?

\* (13:30)

**The Chairperson:** Mr. Komlodi, and I would just—a reminder to the committee to put questions through the Chair.

**Mr. Komlodi:** If I could just ask for some clarification on where in the Public Accounts that's referenced?

**MLA Lamoureux:** I have on page 10 to 11 of the annual report and Public Accounts.

**Mr. Komlodi:** So to respond to why there were nine water and waste 'wajer'—waste-water projects unbudgeted, the funding for the nine water and waste-water

projects was announced on January 27, 2023, 10 months after budget '22 was released. The nine water and waste-water projects are all jointly funded and includes the expansion of CentrePort Canada's Airport Area West regional water and waste-water project, which is partly funded by the City of Winnipeg.

**Mr. Diljeet Brar (Burrows):** I want to ask, first, are we asking questions for one report or any of them in a sequence, or it could be?

**The Chairperson:** Either of them. *[interjection]*

Mr. Brar, the floor is yours.

**Mr. Brar:** My question is about Treasury Board Audit Committee and the recommendations related to it about internal audit.

So the AG recommends majority of the members be independent, so just trying to understand why majority and why not all? And also what actually independent member means here?

**Mr. Komlodi:** Sure, and my apologies, I missed the last question. There was two in there, just that last part.

Thank you.

**Mr. Brar:** The AG recommends that the—under the internal audit and Treasury Board Audit Committee, the majority of the members be independent.

So my question is why majority, and why not all? And also what actually independent member means?

Thank you.

**Mr. Komlodi:** So we follow The Financial Administration Act guidance with respect to the—this committee. One of the key considerations is that there's no conflict of interest for the external members with respect to any internal audit that may be happening. So we essentially view these individuals as being outside of the remit of the internal audit.

In terms of the composition and why it's a majority—we're all members. I would ask for a comment from the Auditor General from that particular question.

**Mr. Shtykalo:** So when we were looking at the internal audit function of the Province and the structure of the Treasury Board Audit Committee, we were looking at best practices as set out by the international institute of internal audits.

And their leading practices would require a majority to be independent to ensure that oversight isn't being

conducted by anyone who would be involved in day-to-day management of activities of the Province.

And the reason why it's a majority would be simply that—so that the independent members can't be overruled by those that aren't independent.

**Mr. Brar:** My next question is about MASC. There were recommendations and there was a management letter issued. So can I get some updates about what actions are being taken on those recommendations, and what were the recommendations?

**Mr. Komlodi:** Thank you for the question.

So in terms of the qualification that was there, that has, of course, been resolved through a change in our accounting policy on that. So in terms of, you know, the operation of MASC and its processes, that continues according to the rules that work. There is no reference to that in terms of the current year's Public Accounts or the report.

I'm not sure if there's a specific follow-up that the member has on MASC in particular, but we feel that we resolved that issue in the previous year's Public Accounts.

**MLA Robert Loiselle (St. Boniface):** I have a Hydro-related question.

\* (13:40)

I just returned from a conference in northern Minnesota, in Duluth, where they professed their love for clean energy from Manitoba and how they'd like more. And it was interesting when I was there, it rained six to seven inches, and they were keenly aware that that water's going to flow north and then we're going to sell it back to them in the form of clean energy.

But, nevertheless, I have a question in regards to some of the assets that have been sold over the past few years, and I was wondering if the deputy minister can name the assets, the Manitoba Hydro assets, that have been sold off and explain the impact of their sale on the Crown corporation.

**Mr. Komlodi:** *[inaudible]*—question. We can follow up with some further analysis on this, but the two items that come to my mind are the Taylor building. So that is the former headquarters for the—for Manitoba Hydro, and that was sold by the utility. I believe it was a tendered sale, and that was purchased by an external group.

So in terms of, you know, implications for the organization, I presume they would've made that

decision based on, you know, their own due diligence around the useful life of that asset and what they feel was needed as far as their physical capital stock.

The other item that I can think of is the RTDS technology through modelling software that was sold by the corporation a couple years ago. And, again, I'm not sure of the specific impacts on the utility, but that would have been a decision made by the organization at the time.

**Mr. Obby Khan (Fort Whyte):** You know, I want to start off by thanking the Office of the Attorney General and his staff, the deputy minister and his staff and everyone here for being here today for this. I think it's—it's my first time being part of Public Accounts. I think I look around the room, it's a lot of first time for people as well.

So I'm going to back up a little bit and ask him probably a really simple question for you, just so we can maybe wrap our heads around reporting and how accurate the numbers are when they're reported.

So fiscal year runs from April 1st to March 31st of the following year. So we're now over a year from the fiscal period that these audited Public Accounts are for, correct? And we've had a new government take over since these Public Accounts were released last September; that's part of the cycle.

Question—I guess—is, can the deputy minister and the Comptroller tell us a little bit more about the financial management throughout the fiscal year as to when you get reliable information from various departments, Crowns? And I guess what I'm trying to get at to clarify is, you know, at the end of the first quarter and a second quarter and a third quarter, which are now well over a year and a half, if not more, from when this report was done, how accurate are those numbers at that time of reporting versus in waiting 'til the end of the entire fiscal year when the entire picture is presented?

**Mr. Komlodi:** Thank you for the question.

So in terms of the cycle of the year, of course, we have four quarterly reports that span the timeline from April 1 to March 31. The information that we receive for those reports comes in through Treasury Board Secretariat from each of the departments. Those are validated by the executive financial officers in each department through the deputy ministers and support and submitted to TBS, who do their own due diligence on the numbers. The numbers—and those would include the other reporting entities through the entirety of summary government.

The information is accurate at that point in time. So the Q1 report, typically that is released in September in Manitoba. We collect that information over the previous months, of course. The second-quarter report, typically, in Manitoba, is around late November, sometimes early December. And the third-quarter report is typically in March; and sometimes in the province, it has been tabled together with the budget and obviously the Public Accounts and Q4 report at the end of September, as legislated.

The changing circumstances throughout the year are one of the major factors that can explain the change in the forecasts compared to budget. So with the Q1 report, of course, we're only three months into the fiscal year, so there is a number of factors that can change both within Manitoba or external environment that can impact both our revenues and our expenditures. There are occasions where supplementary expenditure decisions are made within the year as well, so that can also impact the final results.

So I think it's, you know, an ongoing process throughout the fiscal year for each quarterly report, and then we validate the information as it comes in.

Thank you.

**Mr. Khan:** Thank you very much, Deputy Minister, and I can—and I think everyone in the room can completely respect the cycle of the year and, you know, the Q1 report doesn't come out 'til September and then ongoing with that cycle. And the information can change or data can change based on forecasts and budgets and expenditures and whatnot.

But I'm trying to wrap my head around, I guess, the reports that are put out in Q1. You know, you said the validated—I mean, you used the word internally, but I think you said financial officer internally and through the Treasury Board Secretariat's office, but they're not audited statements, but—as in the year-end report that we're looking at now, Public Accounts.

So would it be true to say that when the quarterly reports are coming out, the Q1, 2, 3, 4s, that those are—may or may not necessarily, or in your opinion, have a good picture of all the revenues and expenditures until the end of the fiscal year where the Public Accounts are then created?

Further to that, if we look what's happening now or currently, we're going to see a final Public Accounts in the next few months that are going to be far different, or potentially far different, than what was reported in the second-quarter budget estimates.

So, you know, wrapping my head around how much of a difference is there? Is this something that the department tracks, as well, of how much fluctuations are there from the Q1, 2, 3 and 4 reports to the actual audited statements in the Public Accounts? I think it'd be good to discuss both of those things.

\* (13:50)

So one is the last question I had there, and would it be fair to say that you wouldn't have a good picture of all the revenues and expenditures within those quarterly reports until the end of the fiscal year when the final audited report is put together? And if you have historical data on how much those have fluctuated, I guess?

**Mr. Komlodi:** So, in terms of, you know, the quarterly reports, Q1 to 3, Q4 being audited by the Office of the Auditor General, at each quarterly report, as at that period, that is our best forecast based on actual information and based on forecasted information for the remainder of that year, depending on which quarter we're talking about.

So from our perspective, those are the best numbers, the best reports, the best forecasts that we have at that particular point in time. And, you know, the professional staff within the department, within Treasury Board Secretariat and the other departments, obviously review carefully every single line item that goes into those forecasts.

On the revenue side, there's also some variability that can happen throughout the year. This is in part due to the timing of when we receive information from the Canada Revenue Agency for the tax year that covers the particular Public Accounts fiscal year that we're in.

And so that, I would say, is another sort of variable which we have some very good forecasting, both on the personal, corporate and other own-sourced tax revenues and federal transfers as well.

So from a revenue perspective, we have a fairly good understanding of the expenditure side as well at each Q quarterly report we true-up effectively and we do track those variances from quarter to quarter, as well as historically. So that's part of our internal due diligence to understand how particular expenditure and revenue components move throughout the fiscal year.

**MLA Jennifer Chen (Fort Richmond):** My question is around the review that was initiated by the Department of Finance in October 2023.

I wonder if—can the deputy tell us some of the highlights of the outcomes of this review. The review I'm referring to is the fiscal responsibility and financial accountability in October 2023.

**Mr. Komlodi:** So in terms of that report, which was conducted by MNP—I believe that's what the member is referring to—so the period for that review was before—I should say after the Public Accounts timing that we're looking at, say, so I would say that falls outside of the scope of the report itself for this fiscal year '22-23.

**MLA Nellie Kennedy (Assiniboia):** Thank you, and thank you so much for being here to the Auditor General and the Deputy Minister of Finance and all of the staff. Like MLA Khan said, this is my first time at PAC, so I'm looking forward to learning and asking some questions here.

With regards to MPI, I'm curious about the ongoing financial impact of Project Nova at MPI, so if you could elaborate on that, that would be great.

Thank you.

**Mr. Komlodi:** So I'll respond to the question in the context of the Public Accounts and in terms of how the MPI financials, their net income, effectively would incorporate the costs that the Crown would incur related to this project or any other undertaking that it has.

So from that perspective, we don't, you know, specifically drill down into the detail of MPI's costs. It's consolidated into the overall net income of the Province.

Thank you.

**MLA Mintu Sandhu (The Maples):** I just want to follow up what MLA Kennedy has asked.

I know initial costs for Project Nova is \$106.8 million, then it went to 128, and now it's between 257 to 290 million dollars.

Do we really know the true number so far, how high the cost will be? Is it on budget between 257 to 290 or is it going to be higher than that?

**Mr. Komlodi:** So in terms of the, you know, the future projections, it's too early at this point for us to be able to provide that information. That'll come in through their submission, their financial statements, their audited financial statements, as part of this year's Public Accounts, and so we rely on their estimates at this point.

\* (14:00)

So it would be too preliminary at this point to be able to say whether the forecast range for that project is in line or not.

**MLA Sandhu:** Just a follow-up. Until March 31, 2023, were they on budget or were they over budget?

**Mr. Komlodi:** I'm going to ask the Comptroller to respond to that question, please.

**Ms. Saj:** Under public sector accounting standards, the Province consolidates the Crown MPI on a one-line basis; so we consolidate only their net income. All of the other reporting entities, like the school divisions and the regional health authorities, are consolidated on a line-by-line basis, and so we would see detail like that when we consolidate.

However, for MPI we do not consolidate on a line-by-line basis, so we don't have that information in the Public Accounts.

**Mr. Tyler Blashko (Lagimodière):** Thanks to everyone for being here today. This also is my first PAC meeting, so happy to be here.

I have a couple questions about inflation rates, and specifically what we—how we compare to the national average during the reporting period in terms of a provincial inflation rate, and what you see—or, what the deputy minister sees as contributing factors that lead to increasing inflation rates or maybe slower increases of inflation rates.

Yes. Thank you.

**Mr. Komlodi:** Thank you for the question.

So there's a number of data points to consider here. Of course we report, in the Public Accounts, this information as well, and it's also included in the annual provincial budget. So in this year's provincial budget, we do include the CPI forecast for the 2024 year, which is 2.5 per cent, and also for 2025, which is 1.9 per cent.

The Manitoba Bureau of Statistics also publishes regular reporting on the consumer price index. The most recent data point for the province that we have is of—is the year-over-year change percentage: April 2024, Manitoba was at 0.4 per cent, and the Canadian average was 2.7 per cent.

**MLA Lamoureux:** My question is with respect to Lake Manitoba and Lake St. Martin on page 15 and 18 of the annual report and Public Accounts. We know that the federal government recently issued an

environmental assessment report on this matter, and that consultation around the project continues to be ongoing.

Can the deputy minister comment on the current status of the channels project from the Province's standpoint?

**Mr. Komlodi:** Thank you for the question.

I'd like to take that one under advisement, please, and follow up.

**MLA Lamoureux:** I do have a follow-up question, and if it also needs to be taken under advisement, that would be fine.

The cost estimates around the projects, both Lake St.—Lake Manitoba and Lake St. Martin have been increasing, and I was hoping that the deputy minister could comment on the reason for these estimated costs continuing to rise.

**Mr. Komlodi:** I'd also like to take that under advisement, please.

**Mrs. Stone:** I'm a bit curious about the reporting structure, similar to, kind of, the line of MLA from Fort Whyte, but specific as it relates to RHAs and health entities.

So can you just walk me through how RHAs and other health entities do report their numbers? Do they routinely report or do they regularly come back to the Comptroller with different final numbers? You know, say, do they come back in summer with different numbers than what they maybe had reported back in, say, January or February, prior to fiscal end?

**Mr. Komlodi:** Thank you for the question.

So the financial information that comes in from the broader health-care system also happens on a quarterly basis as part of our regular quarterly reporting.

Each of the seven service delivery organizations—so the five RHAs, CancerCare and Shared Health—have other reporting entities that have their own expenditures and, in some cases, revenues. Those flow in through each of the seven SDOs. They are essentially consolidated within the Department of Health, who do their own due diligence. There may be some back and forth with some of the SDOs if they have questions. And that is then flowed into the regular quarterly reporting cycle that I had mentioned earlier. That, then, of course, from the Department of Health, is provided to Treasury Board Secretariat, who will do further consolidation on a summary basis.

\* (14:10)

**Mrs. Stone:** Yes, I have a follow-up, and I apologize, because I'm trying to get my head wrapped around the reporting and the quarters and everything else.

So I guess my concern is that numbers are being reported in quarterly reports that are different than year end. So do you have a report tracking as to what was reported and then what was final? So do you do that internally through these various SDOs that are reporting them within the Department of Health and then to you guys?

**Mr. Komlodi:** So certainly that tracking of the reporting on a quarterly basis and then the final audited financial statements are done on a regular basis within the department. We do track, you know, the various line items that are reported up through each of the SDOs, and they, in turn, would be doing the same for their reporting entities as well.

So, you know, the quarterly consolidation exercise is the best forecast, the best understanding of the actual data and the forecast at that particular point in time. So there are some variations that happen throughout the year. There may be some unexpected expenditures that take place, but that is reported on a regular basis through those quarters, and then the final quarter is the one that's ultimately audited through the OAG.

**MLA Maloway:** I'd like to ask a question involving derivatives.

Now, Manitoba March 31, 2023, summary financial statements had \$2 billion in derivative assets and \$2.8 billion in derivative liabilities. Now, if my investment people were doing stuff like that, I'd be wanting to ask them some questions. Why do I have almost a billion dollars more in liabilities than in assets?

And not knowing a whole lot about derivatives, I am aware that, in 2008 when the economy melted down, it was largely due to derivatives packaging in these high-risk mortgages, right? And they were being sold to, you know, managers of municipalities and school boards. And these people had absolutely no idea what the hell was in these derivatives, and yet, we melted down the whole economy because of it.

I arrived in Ottawa as an MP just exactly as this was happening. The government of the day had to save General Motors and run a \$56-billion deficit. It just—like it—there was no warning here. It just happened overnight.

So when I see this I'm a little bit concerned about—you know, I kind of understand why we buy these things, but, like, who's in charge of this thing? Are these civil servants that are buying them? Or are we dealing with investment dealers, and, if so, who are they and how did they get their contract? Like, did they have to compete every couple of years to be the Province's recognized investment buyers, right?

So could you just expand on all these things and explain to us why we shouldn't be concerned about this?

**The Chairperson:** Thank you, Mr. Maloway, for that very pertinent question.

Just a reminder to everyone about the use of parliamentary language in committees.

**Mr. Komlodi:** Thank you very much for the question.

And certainly the derivative financial instruments are one of the more complex financial constructs that we utilize in the Province in terms of what they are. So they're effectively financial contracts. Their value is derived from the underlying instruments, and effectively we use this to mitigate and hedge against risk.

The Province issues in the international markets, and one of the uses for derivatives is to essentially hedge back foreign-denominated currencies into Canadian dollars. So the values that you see reported in the Public Accounts are effectively the theoretical value of those derivative contracts at a particular point in time. So if the entire pool of derivatives were realized, or essentially brought to maturity, at that particular point in time we would have the liabilities and assets noted in the Public Accounts.

These liabilities mature over a certain period of time, so there effectively is no concern from our perspective that all of this would be realized at any particular point in time. There'd be a much larger, you know, structural whole-of-economy, I would say even international events, that would have to take place for all these contracts to be brought to maturity at that particular point in time.

The other thing to note is that the Province will only, you know, work with counter-parties that we find are reliable and that meet strict investment-grade rating requirements. That work is done through the Department of Finance's Treasury Division, who are a professional staff that effectively manage the province's debt and borrowing, and they will have the

skills and expertise necessary to engage in the utilization of derivatives to manage our larger debt portfolio.

**MLA Maloway:** And as a follow-up, could the deputy send us a breakdown of what these—what's in these \$2.8 billion in derivative liabilities? I'd like to see a breakdown of what it is. Are the—are we dealing with high-risk mortgages here? Are we dealing with, like you mentioned, contracts? Yes, it could be other kinds of contracts here, but I think the committee should want to know what our—what is our exposure here, right? That it's not all in one particular type of asset.

**Mr. Komlodi:** Thank you for the question.

\* (14:20)

And I'd also like to point out for reference page 93 to 95. That has some background on the risk management and the use of derivative financial instruments. We are looking at expanding that section in this year's Public Accounts, as well, and I can certainly follow up on some of the questions that the member posed.

I did want to point at one particular paragraph here in response to the question, which is on page 95. And it referenced that—references that the Province only enters into what's called International Swaps and Derivative Association master agreements, or ISDAs.

So these are essentially agreements that we have with counterparties, and we want to make sure that they meet strict investment-grade credit-rating requirements. So examples of that would be large pension funds, some of the major banks, both here or internationally. So sophisticated investors that we feel would meet, you know, our test, and those are regularly measured and monitored.

So essentially, it's an agreement between Manitoba name—and the Manitoba name is a strong one on the markets—with counterparties that we feel meet our level of investment-grade standards, which is high.

And, you know, as an example, this year, we're going to the market for about \$6.2 billion throughout the fiscal year, and that is unfolding through this same process of entering into ISDA agreements with counterparties.

**Mr. Khan:** I just want to thank the deputy minister. It's a breath of fresh air to ask a question and within 30 seconds come back with an answer—an actual answer. So I want to thank the deputy minister and his team for that.

The Office of the Attorney General, we'll get to you guys afterwards, but you're off the hook for today.

So I want to go back to some of the opening comments the deputy minister made. And he was speaking really quickly, so I was trying to write down as he was speaking, but, I mean, it's well recorded in the Public Accounts here that in 2022-23 that there was a surplus of \$270 million.

The deputy minister spoke about a couple things that resulted in that surplus. Can the deputy minister maybe just go back and just for record discuss that surplus, how it got there and, you know—I mean, that's quite a large swing. How is that possible to happen, that you can have a billion-dollar swing from what was forecasted to what was actually happening?

So the question is can the deputy minister go back and discuss that a bit. And maybe, historically, is it common in the province of Manitoba to run surpluses and deficits? When was the last surplus before that? And maybe some historical relevance on—does the Province usually run a surplus or does it usually run a deficit?

**Mr. Komlodi:** So we're just looking up the history of net income, and there's been, obviously, years where we've had surpluses, there's been a number of years where we've had deficits, so it's been, you know, fairly—you know, every single year is a distinct year in terms of the revenue and expenditure that results at the end of the year.

But as far as the revenues in question, page 10 of the Public Accounts does provide that—the revenue breakdown. We did have individual income tax come in \$242 million higher, as well as corporation income tax revenue come in \$590 million higher than budget. So there's a number of factors in here.

Primarily, economic growth was stronger than was forecasted at the time of the budget. Some of that could be a bit of COVID unwinding, in terms of a resurgence for demand, as well as, you know, some positive economic factors across a number of sectors. We also had fairly strong labour market performance that was stronger than anticipated in a post-COVID context.

On a related note, retail sales tax revenues were also \$187 million higher, so that essentially mirrors the higher consumer spending that we saw, which is, to some extent, tied to the other factor that I mentioned around higher corporate income tax revenues. So some of that post-COVID spending, I think, would definitely account for some of that.

We did have some unexpected increases on the corporate side, as I mentioned. And, of course, we had

some taxation revenue changes for some of our other taxes on the downside, in particular on tobacco tax.

Federal transfers, we had a \$219-million increase through the Disaster Financial Assistance Arrangements, and some other federal transfers related to the COVID-19-related funding.

So those are all itemized on page 10 and, you know, explain the \$1.9-billion swing on the revenue side.

**Mr. Khan:** Thank you, Deputy Minister. Again, breath of fresh air to get a question answered in this Chamber, so thank you very much for that, and your team.

And tying into surplus deficits—and this is a bit of a long-winded one, but it seems that, when it comes to budgets, revenue expenditures have grown immensely over the last 20 years. When I look back historically, Health budget's grown from about \$3 billion in the early 2000s to now over \$8 billion, and I think \$9 billion in the latest budget. Operational capital and the provincial budget has grown from about \$6 billion in '99 to \$22 billion in '22-23 in these Public Accounts. The growth in government expenditure in Manitoba appears to be well above the inflation rate.

So maybe the deputy minister can talk about, you know, the provincial expenditures well above inflation rate.

And an interesting thing is, you know, the deputy minister commented on a number of factors: economic growth, more tax—revenue through personal taxes, strong labour market, higher consumer spending, all those factors, of course, and there's a multitude of factors that go into this.

You know, the concern is that the spending is way higher than inflation.

But maybe the deputy minister can also comment on a bit of analysis of how his and his team look at economic growth, revenue growth, government expenditures and whatnot over a period of time in these Public Accounts. Some economic insight on how the committee—to us, sorry—that the Province might better balance and optimize economic growth while lowering taxes, while continuing to grow government revenues. I mean, all of these came into play in this Public Accounts here, which is a kind of a bit of a perfect storm in '22-23.

Sorry, I did preamble—say it was a bit of a long-winded question. But I guess I'm trying to get at, you know, all these factors taken into account, the deputy minister and his team, what are the factors, what analysis do they do to hopefully have every year as—

result in a surplus. Understanding there are a multitude of factors, what does the deputy minister and his team look at when doing that?

\* (14:30)

**Mr. Komlodi:** So maybe I'll start with, you know, the economic outlook and the indicators that we look at.

And, you know, in each year's budget we look at the key indicators of economic growth measured through GDP. We had a bit of a discussion about the consumer price index, employment, unemployment rates. So these are some of the macro factors—and population growth as well—these are some of the macro factors that we would look at. And our revenue forecasting is in part informed by our expectations for nominal GDP in particular.

It may be of interest, on page 31 of the Public Accounts, we do include some key fiscal sensitivities. So as an example, we include nominal GDP increases, interest rates and debt and what that would mean from an annual fiscal impact. Nominal GDP, a 1 percentage point increase is \$143 million. You know, our 2024 forecast for nominal GDP is 2.9 per cent. So these are some high-level indicators that we track.

I would also point out the Financial Statement Discussion and Analysis section of the Public Accounts, which outlines a number of factors that—I should say indicators—that we utilize, including sustainability, flexibility and vulnerability.

And there's indicators below that, that we outline. So there's a number of them in the Public Accounts. For example, debt charges to total annual revenue, own-source revenue to provincial GDP, net debt to total annual revenue; these are indicators that we will track on an ongoing basis to measure how we're executing against our fiscal plan in any particular year.

We also talk about exposures to risk from an overall government perspective. So these are some uncertainties that are effectively outside of the government's control: extreme weather events; there could be trade barriers; there could be other unforeseen events, for example, lower water levels. So a number of factors that we have sometimes no control or sometimes less control over.

So the department has a number of individuals, including in our statistics area, including in our economics area, our fiscal arrangements group, working together with the Office of the Provincial Comptroller, others in Treasury Board Secretariat, to effectively

monitor, track and true-up our estimates on an on-going basis.

As discussed earlier, those are then rolled up into our quarterly reporting and we track that against the budget each particular year.

Thank you.

**Mr. Blashko:** I'm going to switch things up and look to one of the Auditor General's recommendations.

I see here, on recommendation, I believe it's No. 4, the mention of enterprise risk management. And I'm curious what that shift in perspective could—like, how does that impact the daily work and approach of the Treasury Board? I'm curious, yes, to learn more about enterprise risk management.

**Mr. Komlodi:** My apologies, Mr. Chair, I wasn't sure if that question was directed at us or the Auditor General, just to confirm.

**Mr. Blashko:** I'm open to whoever. I thought maybe the Auditor General, but whoever feels well-positioned to answer.

**Mr. Shtykalo:** So our recommendation No. 4 in the report is with respect to—is directed to Treasury Board to consider a government-wide approach to risk management, an example of which we've seen—which you can see in other large organizations is a system such as enterprise risk management.

This recommendation came about—as we're going through the audit we note that there are risk assessment processes that take place throughout the government and in government departments. There are also some risk management processes that are managed centrally, but what we didn't see was a centralized—or, given the complex and large size of the government as an organization—or, sorry—of the Province as an organization, sort of this overall risk management process identifying goals and risks in achieving them and mitigation measures.

So that was the intention of recommendation 4 in the report.

**Mr. Blashko:** My follow-up may be for the deputy minister.

But a change to that enterprise risk management approach, how would that impact the—or likely impact the kind of day-to-day work of the Treasury Board?

\* (14:40)

**Mr. Komlodi:** Thank you for the question.

So maybe I'll start with, you know, describing that the ERP is effectively a risk-mitigation tool for the whole of government to use, so it's not solely for Treasury Board Secretariat. Line departments will be using it to effectively, you know, identify and assess the impacts that would take place for a certain suite of risks that they would be exposed to.

To give a particular example, if a public asset—let's say a building that is currently delivering services—is no longer available, what plans are in place for the individuals that are using that particular service would continue to benefit from that. So that's a very, sort of, specific example.

It's not necessarily a financial planning tool; it's a risk mitigation, a risk management, and it's a more sophisticated way for departments and the whole summary government that are being managed through that to be undertaken.

This work, in part, is under way right now. But utilizing, as recommended by the OAG, a more formal ERP tool will allow us to do even more of this.

**Mrs. Stone:** This question's for the department as well. On page 10 of the annual report, of net income of GBEs, the report states an increase in Manitoba Hydro's net income compared to budget, including reduction in water-power rental rates and the debt-guarantee 'fae'—fee paid to the Province.

Can you just speak to the water-rental revenues and the debt-guarantee fee on Hydro—is it reduced during this fiscal year to keep rates low—and how this is reflected in Public Accounts.

**Mr. Komlodi:** Thank you for the question.

On page 60 of the Public Accounts, which includes the consolidated statement of revenue and expense, there's a breakdown of revenue. So the water power rental fee, which effectively is a formula-driven fee that Manitoba Hydro pays to the Province, which was cut in half, are indicated there in terms of the budgeted and actual amounts that were paid.

Further, on page 99 of the Public Accounts, at the top is a description of the fees on government guarantees. So there's a description there on Manitoba Hydro's remittance of \$118 million to the government based on the amount of debt that was guaranteed, which again was a charge that was halved by policy.

**Mrs. Stone:** Hydro's net income, \$518 million higher than it was actually budgeted for.

So how has this overall reflected or benefitted Manitoba Hydro's bottom line net revenue, and in turn, the final summary accounts of the Province?

**Mr. Komlodi:** So of course Manitoba Hydro's net income was \$518 million, which is a consolidated number, so the savings they would have seen from the reduction in those charges from the Province would have been incorporated into that number.

The overall summary financial impact is netted out in terms of the Province's bottom line, but I would say it's a composite of the water power rental charge that you see on page 60 and the amount on page 99. So everything being equal, that is the calculation that would have gone into that overall bottom line from Manitoba Hydro's perspective, which we then review once they submit their financials to us.

**MLA Chen:** So my question is about the Auditor General's report. That's the Auditor General and the team prepared and brought a number of findings and recommendations, so my question coming from this report towards the department and the OPC. I have three questions.

So first, as the Auditor General emphasized in his opening remarks about the lack of audit readiness, so I'm just wondering, is there any changes or new processes added to ensure that information required to complete the audit of the Public Accounts is ready prior to commencement of the audit? And I think—so the page in the report is page 6.

And also one of the recommendations includes provide the training provided to the departments and the departmental EFOs. So I'm just wondering, are there any training provided to the departments on what audit readiness means? So that's the first question about lack of audit readiness.

\* (14:50)

My second question is about the asset retirement obligations, which is on page 11. In the report, it referred some of the issues, including pricing, legal opinion on asbestos and discount rates. So my question is, what actions have been taken to address the Auditor General's findings?

My third question is, on page 14, around the estimate of personal income tax revenue and the corporate income tax revenue, particularly about corporate income tax revenue on page 14, in the table, which—seeing that it fluctuated with a large margin, particularly in the year of 2022 and 2023.

So my question is, what has—what actions have been taken to—or any new controls have been taken to address or to ensure that the actual and estimate are not—that the margin is not—doesn't fluctuate too much?

Thank you.

**Ms. Saj:** Okay. Thank you for the questions. So I'll start with the question regarding audit readiness.

How we've addressed this is mainly through training the executive financial officers and the staff in their departments. We've got some comptrollership training modules that are mandatory for the financial officers in the departments that can be used for new staff and also to refresh existing staff's knowledge on some of the more critical comptrollership issues that they need to be aware of and manage within their departments.

We've also created three new executive financial officer positions and staff complements for departments based on a needs assessment. So we found that some large departments were being served by a single EFO—executive financial officer—and they needed more dedicated attention to their financial matters within their department. And so those positions were created; they've been hired and implemented in the three departments now.

We also, for this year, in terms of audit readiness specifically, we provided an early memorandum to the executive financial officers in all departments and asked them to share that with the government reporting entities within their ministries, so that they had enough time to plan for the reporting that would be requested at year end. We provided detailed instructions and templates, and we also held some training sessions on how to use and complete the new templates that were provided for the new staff, or also with those new templates, so that the departments and the reporting entities knew how to fill them out to avoid causing delays or confusion when they were providing their year-end reporting.

We found so far this year that that has really helped us; we are in a good position. Both the Auditor General's office and my office keep track of our progress relative to previous years' progress in the preparation of the Public Accounts, and we are ahead of where we were last year, certainly. And we are on a good track to complete our work on a timely basis this year, so long as everything continues to go smoothly.

The next question you had regarding asset retirement obligations. So the Auditor General's opinion last year included a scope limitation with respect to

the balances that the Province included in Public Accounts for asset retirement obligation. This was due to—well, this was the first year, in 2022-23, that the government of Manitoba implemented asset retirement obligations accounting standard. All provinces, territories and the federal government and all Canadian public-sector entities were implementing this standard for the first time last year.

So some of the smaller organizations, smaller school divisions, smaller personal-care homes and health entities such as those did not have the expertise in-house, or the understanding to complete this on a timely basis, nor were the resources available if they were to seek to hire somebody to provide advice. And so that's where our backup documentation regarding our asset retirement obligation balances on the government's summary financial statements were not sufficiently supported.

So that collectively led to the audit qualification. What we have done since tabling the 2022-23 Public Accounts is we have worked closely with those smaller organizations and we have strengthened and clarified our backup documentation for the balances. We did find that there was a need to restate the balances that we presented in last year's Public Accounts. So those changes are currently being audited for inclusion in the '23-24 Public Accounts, and we will provide a restatement in '23-24 around those.

Thank you.

**The Chairperson:** All right. So as previously discussed, the committee was going to revisit—sit 'til three and revisit; I don't know if—how long would the committee like to sit for?

**MLA Maloway:** Suggest we sit for another 30 minutes, and then revisit at that time.

**The Chairperson:** Okay, there's been a suggestion to sit for another 30 minutes.

Is that agreed—and then revisit—is that agreed?  
*[Agreed]*

All right, so we will sit for another 30 minutes, and revisit at that time.

\* (15:00)

**Mr. Komlodi:** Just to respond to the third question from MLA Chen, which had to do with variability in personal and corporate income tax revenues, as noted in the Public Accounts. And, you know, in terms of the '22-23 fiscal year, as mentioned earlier, we did

have significant economic growth and strong labour market results that drove those numbers.

We are not the only jurisdiction that saw a boost in revenues, so there are some factors that I would argue are post-COVID unwinding, and some expenditures as well, in particular at the household level, that would've contributed to that. As also noted in the report, we—the department did change—or made some adjustments to—our forecasting methodology in early 2023. And so we're continuing to track and monitor how our revenue forecasts are unfolding throughout the year.

There was a lag, of course, in the remittances, the data from the Canada Revenue Agency, that we need to factor into our estimates, and those flow in throughout the fiscal year. On the corporate side, in particular, there can be one or two or maybe multiple larger, or a combination of, you know, smaller corporate taxpayers that, through various decisions, maybe will change their tax planning or other approaches, that can impact how, you know, our forecasts ultimately arrive at the amounts that we believed at the time of the budget.

So more variability is not necessarily unsurprising on the corporate side, but we do have sophisticated methodology that we use at the time of budget and then update throughout the year as more and more data become available. There's a link between the income tax data, the micro data, as well as the economic data that we monitor that I spoke to earlier. So we use a combination of both through our economics team working together with the Manitoba Bureau of Statistics to update those estimates on a regular basis.

**MLA Chen:** Just a follow-up question regarding the department's—the last question that you mentioned. There may be some corporate change that they're accounting. So does the department have prior knowledge when those corporate make those changes, or, like, there any, like, initial understandings of that, or we only know that aftermath.

**Mr. Komlodi:** So, typically, corporations will make their own decisions based on their own financial circumstances in their financial—or, their tax years. So, you know, we typically would not have prior information, you know, on a 'taxpayer'—taxpayer-by-taxpayer basis.

**MLA Loiselle:** I have a question for the Auditor General, specifically in regards to recommendation No. 3, which alludes to significant control deficiencies. And I'm just wondering—and perhaps the Auditor

alluded to this in his opening statement, but could he list those deficiencies or share them with us?

**Mr. Shtykalo:** In recommendation 3 we do reference consideration of significant controls deficiencies as mentioned in management letters. So management letters are a regular—are prepared in the course of any financial statement audit, and the purpose of a management letter is just to bring items of attention to management. And that—it's not only on our audit of the summary financial statements for the Province, but also of other entities that we audit.

Usually these are internal control weaknesses, like if we see there is insufficient approval for a certain type of expense, or a lack of segregation of duties in a certain area, we'll highlight those. They're usually not issues that will affect our opinion on the financial statements. They don't have a material impact, or we've been able to do other work to assure ourselves that there aren't material weaknesses.

Similarly in the audit of the summary financial statements, every year we prepare a management letter with recommendations to management. All of these recommendations are—we don't share publicly, because individually sometimes they're in aggregate, they have—or, sorry. We don't—I don't elevate them to the Legislative Assembly, like the specific nature of the deficiencies that we're noting.

So I haven't released sort of any of the contents of the management letters, but generally the areas that the deficiencies would fall under would be approvals, processes for determining estimates, maybe in some cases segregation of duties, certainly delegation of signing authorities, things of that nature.

Why I decided to elevate this comment and make this recommendation is that because at the end of 2023, at the end of our audit, we looked back and, in the four previous audits, we had issued recommendations containing 50 recommendations over the past four audits. When we followed up on them, we noted that only 14 had been fully addressed.

And so in an effort to make a recommendation that I viewed would be helpful would be to consider our management letters on a risk-based approach, so you look through them, prioritize them on which is most crucial, and then organize a plan to address them systematically.

So hopefully that's insight into what I meant by this recommendation.

**Mr. Brar:** I want to touch on little bit on labour needs and workforce needs. This is a very important topic

for our province, and whenever we talk about this topic we talk about the retention or training, training infrastructure. Sometimes we think about immigration and bringing people from outside of our province, or outside of Canada.

We have made many efforts, and we need so many professionals. For example, we need doctors, we need nurses, we are short of veterinarians, we need ag professionals in coming years.

So whenever we make some choices, we need to analyze how efficient that particular choice or decision was. I want to just quote one example that Manitoba recently made a choice to bring in health-care workers, and it was called Filipino health-care workers recruitment program. I'm interested to know how much was spent on this program and how many workers were able to get into the workforce in Manitoba Health.

\* (15:10)

**Mr. Komlodi:** Thank you very much for the question.

We'll have to take the matter under advisement and connect with the Department of Health to get an update on the number of arrivals that I believe are managed through Shared Health for the Philippine recruitment program, as well as the request for the financial impact of that initiative.

Thank you.

**Mr. Brar:** I have a follow-up, because this question is also related to labour issues and workforce needs. How much was spent on out-of-province surgeries by the Diagnostic and Surgical Recovery Task Force, and how many procedures were performed under that program?

**Mr. Komlodi:** Thanks for the patience.

So we are just looking at the Manitoba Health annual report which, on page 27, provides a description of the Diagnostic and Surgical Recovery Task Force, and it notes the total investment of \$50 million for fiscal year 2021-22, and it notes over \$125 million for fiscal year 2022-23, which results in a number of procedures outlined on that page.

Thank you.

**Mrs. Stone:** This question is for the Auditor General. What are your top audit priorities that you have following these Public Accounts?

**Mr. Shtykalo:** I think I mentioned in my opening comments, one of the things that we've undertaken is a performance audit looking at processes, controls in

place with respect to the financial reporting in the province.

Given the number of deficiencies and comments that we've made in RTLs and management letters, like we just discussed, I—at the end of a financial statement audit, I can identify where we had problems, but I can't really go much further in determining, like, what I feel was the root causes.

So a priority for me, immediately after these Public Accounts, was focusing on the performance audit, where we're going to take a look in identifying root causes for some of the deficiencies and identifying potential recommendations for the consideration of the department to address the, you know, some of the root causes that we identify in the work.

**Mr. Khan:** The Auditor General—I don't know—raised significant concerns and flags, I guess, that he's brought up. And then one of the colleagues, and I forget who it was, that I think—*[interjection]* Oh, thank you—have brought up questions to the department, and it sounds like the department is doing a lot. It sounds like you guys have really ramped up your operations as far as hiring and processes and procedures and reporting and working with the Attorney General's office.

So I guess the question may—the first one's a really simple one—and I'll hopefully have a follow-up or two, but, you know—and this would be for, I guess, both the Attorney General (Mr. Wiebe) and the department—and it sounds like you are much better prepared for what's happening with the changes that were required as far as the asset retirement obligation standard.

Simple question: I guess, does the department and the Attorney General both feel that they are in a much better position now to have timely reporting, proper reporting, the right data that is required going into the next audit?

\* (15:20)

**Ms. Saj:** Thank you very much for the question.

So I'll provide a little bit of context. We, at the Office of the Provincial Comptroller, consolidate 129 government reporting entities in preparing the summary financial statements that get included in the Public Accounts. And so we rely heavily on those entities to prepare their information on a timely basis and for those individual audits to be undertaken in a timely basis and submitted into our offices on a timely basis. So there's always a risk with that process. Certainly, that's a little bit out of our control.

What's within our control, though, I've talked about, you know, establishing three new executive financial officers in departments and their staff, and providing additional training and support and earlier request for year-end reporting with detailed instructions. And so I would say, on the whole, from the Department of Finance perspective, we are much—in a much, much better position to deliver the Public Accounts on a timely basis this year than we have been in the past.

Thank you.

**Mr. Khan:** I'm learning the system in here. Part of my first question was actually a double-pronged question, so it still counts as only one, but it was for the Auditor General, not the Attorney General. I apologize. I think I referred to you a few times as the attorney. So the same question for the Auditor General, and I want to thank the department for that answer as well.

**Mr. Shtykalo:** Consistent with the response that I've—that we've received in—the response I received to the report, which we've included in the report, the department, the Comptroller's office, Treasury Board Secretariat, have been committed to addressing a—the issues that we identified in the report. And I can confirm since that response we have seen a lot of the changes that have been spoken about today in the meeting.

We've had frequent touchpoints. We've been consulted on—earlier on certain issues than we have in the past. So I'm comfortable in saying we're on the right track. I'm hesitant to commit to anything until the final I is dotted and the final T is crossed on the audit opinion later this summer. But I will be including, you know, a follow-up on a lot of the things that I talk about in this report, in our report this year in December.

The other thing that I will say, the Comptroller made a comment about things under their control and things not under their control. Just want to clarify for the committee that the—part of the performance audit, or the focus of the performance audit, will be looking at root causes. So there may be things, and there may be things that remain unaddressed, even after this year's audit, which are a concern going forward, and we'll have recommendations on any of those gaps that we might find in the report.

**Mr. Khan:** Great, and thank you, Auditor General, and the department for that answer. Sounds like we're headed in the right direction and things are working well, or better, and you're right, you can't say unequivocally until we see what actually happens.

I mean, the pile of work you all are doing is immensely massive, so thank you for that.

Question in regards to the, I guess the hiccups or the reporting concerns in '22-23. I believe someone in the department had said earlier that this was maybe the first time across the country or across the province that this type of new asset retirement obligation standard was being put in place, and there was—so did they have a—and maybe the Auditor General might have information on this as well as—did other provinces run into this problem as well?

Was there a delay in getting the information? Was there concerns with reporting? And—sorry, I thought I heard something. Were there—did this also happen in other provinces? Were there concerns in reporting, in what was missing, and have other provinces taken steps to find the best practice? And if so, have we reached out to them to see what they're doing?

Again, coming back to, I think you said something along the lines of this was the first time this change was being done at this level, and were there other changes done as well?

So again, kind of a larger question, but trying to understand why this happened more so in '22-23 and hoping it doesn't happen again.

**Mr. Shtykalo:** Maybe I'll just take this opportunity to quickly kind of weigh in from the audit perspective. I know this particular accounting policy was a major undertaking. It had been in process for years. We had a lot of contact with our fellow audit—provincial legislative auditors across the country, and I know there were challenges across the board.

However, I can report that Manitoba received the only scope limitation with respect to asset retirement obligations, but—

**The Chairperson:** Ms. Saj.

**Ms. Saj:** Thank you.

Okay, so yes, this was the first year of implementation for all Canadian public sector jurisdictions, and it was a challenge for all of those jurisdictions. We consult regularly with our national, provincial and territorial counterparts, the comptrollers' offices across Canada, to understand how they are approaching an implementation of accounting standards in this way. I think some of the challenges that we encountered here were unique to Manitoba, so while we did attempt to adhere to best practices, there were some challenges that we faced here specifically in Manitoba.

There were two provinces who did make the decision to table their public accounts very late in the calendar year. The majority of jurisdictions are required by legislation to table by the end of September. Two jurisdictions decided to table their public accounts late, so a decision to table the Public Accounts in Manitoba on a timely basis in compliance with The Financial Administration Act was made.

If we had had more time, perhaps we would have been able to resolve these backup documentation issues that we experienced in Manitoba. However, we felt that timely reporting was more important for the vast majority of the Public Accounts.

The asset retirement obligation balances were the only matter of issue that was included in the scope limitation by the Auditor General, and so the rest of the numbers in the Public Accounts were—had assurance provided by the Auditor General in Manitoba.

Thank you.

**The Chairperson:** All right, it is 3:30. I'm wondering if there's will from the committee to—oh, MLA Maloway.

**MLA Maloway:** We go for a maximum 30 minutes; however, we might finish before that.

**The Chairperson:** So MLA Maloway has suggested that we give ourselves another half-hour extension, and if we finish before then, we proceed on that basis.

Is that agreed? [*Agreed*]

All right. So we will sit for another 30 minutes.

\* (15:30)

**Mr. Brar:** It's a quick clarification on the page number that was mentioned in the answer to my task force question, was it page 27? Or maybe I didn't hear it properly.

**Mr. Komlodi:** So I was referring to the Manitoba Health annual report for '22-23 fiscal year, and it's on page 27. [*interjection*] Not the annual report, no. It's the department's annual report.

Thank you.

**The Chairperson:** All right, hearing no further questions or comments, I will now put the question on the reports.

Shall the Annual Report and Public Accounts of the Province of Manitoba for the fiscal year ending March 31st, 2023, pass?

**Some Honourable Members:** Pass.

**An Honourable Member:** No.

**The Chairperson:** Okay, the report—I hear a no. The report is not passed.

Shall the Auditor General's Report—Public Accounts and Other Financial Statement Audits, dated December 2023 pass?

**Some Honourable Members:** Pass.

**An Honourable Member:** No.

**The Chairperson:** I hear a no. The report is not passed.

The hour being 3:31, what is the will of the committee?

**Some Honourable Members:** Committee rise.

**The Chairperson:** Committee rise.

**COMMITTEE ROSE AT:** 3:31 p.m.

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